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In Re Convertible Rowing Exerciser Patent Litigation: Should ITC Patent Decisions be given Preclusive Effect in the District Courts

J. Brian Kopp

In Re Convertible Rowing Exerciser Patent Litigation: Should ITC Patent Decisions Be Given Preclusive Effect in the District Courts?

Introduction

A person who believes his patent is being violated by the importation of an infringing article has two avenues for relief. The patent holder may bring an action before the International Trade Commission (ITC) alleging unfair practices in import trade under Section 337 of the Tariff Act of 1930 ("Section 337"),[1] or he may seek relief in a federal district court based on federal patent statutes. Section 337 specifically authorizes the ITC to conduct formal, adversarial proceedings to determine whether a party is importing articles into the U.S. which infringe a valid and enforceable patent. There are important differences between the procedures and remedies of the ITC and those of the district courts which significantly affect the parties' forum preference.

In *In Re Convertible Rowing Exerciser Patent Litigation*,[2] the Delaware District Court recently had an opportunity to address directly an issue which is likely to affect strategies in international trade and patent litigation. In *Convertible*, the district court held that a prior ITC determination that a patent was invalid—a determination subsequently affirmed by the United States Court of Appeals for the Federal Circuit ("Federal Circuit")[3]—should not preclude the district court from freshly considering the patent's validity.[4] Thus, a party who loses before the ITC based on a finding of patent invalidity has a second chance to succeed on his claims before a district court. The effect of the decision is to allow a complainant to test the validity of his patent first at the ITC before bringing an action in a district court, thus encouraging costly, duplicative litigation. The *Convertible* decision also highlights an inconsistency in the preclusive effect district courts grant different ITC determinations: while district courts refuse to grant preclusive effect to ITC patent determinations,

1. 19 U.S.C. § 1337 (1988).

2. 721 F. Supp. 596 (D. Del. 1989), *appeal denied*, 904 F.2d 44 (Fed. Cir. 1990), *reh'g denied*, 903 F.2d 822 (Fed. Cir. 1990).

3. Diversified Products Corp. v. United States Int'l Trade Comm'n, 824 F.2d 980 (Fed. Cir. 1987) (table; text in WESTLAW Allfeds database).

4. *Convertible*, 721 F. Supp. at 604.

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they do grant preclusive effect to other ITC determinations such as trademark validity.

This Note analyzes the *Convertible* decision and its ramifications and concludes that while legislative history supports the *Convertible* decision, no significant policy supports the inconsistent preclusive effect given to different ITC determinations. Part I of this Note gives a general description of the ITC's powers and procedures, presents the legislative history of the ITC's jurisdiction over patent issues, and discusses relevant judicial precedent. Part II sets forth the Delaware District Court's decision in *Convertible*, including the various arguments that the court considered. Part III analyzes the decision and discusses its ramifications.

I. Background

A. International Trade Commission

In response to growing concerns regarding unfair trade practices Congress passed the Trade Act of 1974,[5] which granted the already existing Tariff Commission additional powers and renamed it the International Trade Commission.[6] Congress authorized the ITC to conduct investigations into alleged unfair practices in import trade[7] either on the ITC's own initiative or based on a complaint submitted under oath.[8] Thus, by filing a complaint a private party can commence an ITC investigation. Once an investigation is initiated, the ITC must conclude its investigation and make a final determination within one year.[9] Hence, the ITC provides a quick, effective response to unfair practices in import trade.

1. General Procedures

Typically, an administrative law judge (ALJ) presides over ITC investi-

5. Trade Act of 1974, Pub. L. No. 89-670, 88 Stat. 1978 (1975) (codified in part at 19 U.S.C. § 1303 *et seq.*). One of the primary purposes of the Trade Act was "to improve procedures for responding to unfair trade practices in the United States and abroad." S. REP. No. 1298, 93d Cong., 2d Sess. 4, 25, *reprinted in* 1974 U.S. CODE CONG. & ADMIN. NEWS 7186 [hereinafter "Senate Report"].

6. The ITC's predecessor, the Tariff Commission, was created by the Revenue Act of 1916 as a six-member body appointed by the President and given the responsibility to investigate the effects of customs laws and duties. 1 H. KAYE, P. PLAIA & M. HERTZBERG, INTERNATIONAL TRADE PRACTICE § 2.06 (Supp. 1987). The Trade Act of 1974 and subsequent statutes have amended the Tariff Act of 1930, granting the ITC stronger remedies and broader powers. *Id.* at §§ 2.14, 2.15. *See* Note, *Importation of Articles Produced by Patented Processes: Unfair Trade Practice or Infringement*, 18 GEO. WASH. J. INT'L L. & ECON. 129, 135 (1984); Wineburg, *Litigating Intellectual Property Disputes at the International Trade Commission*, 68 J. PAT. OFF. SOC'Y 473, 474 (1986). *See also* Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (1988) (amending 19 U.S.C. § 1337 (1988)).

7. 19 U.S.C. § 1337 (1988).

8. *Id.* at § 1337(b)(l).

9. *Id.* The statute allows 18 months for more complicated cases. *Id.*

gations, which are conducted as formal, adversarial proceedings.[10] After completion of discovery,[11] the ALJ holds a hearing where the parties present evidence and arguments.[12] After the ALJ makes an initial determination as to whether a Section 337 violation has occurred,[13] the ITC has forty-five days to review the determination.[14] The ITC can conduct a review of the initial determination upon its own initiative[15] or upon the request of any party to the investigation.[16] If the ITC fails to perform a review, the ALJ's initial determination becomes the ITC's determination.[17] Once the ITC finds a violation, the President of the United States has sixty days to disapprove the determination, thus voiding it.[18] If the President approves or fails to disapprove the ITC determination, it becomes final.[19] Any party adversely affected by a final determination may appeal the determination to the Federal Circuit.[20]

2. Remedies of the ITC

Congress has empowered the ITC to implement specific remedies for Section 337 violations that are distinct from those available in other forums.[21] The remedies include general exclusion, limited exclusion, and cease and desist orders. A general exclusion order bars the import of a particular item.[22] As an *in rem* remedy, this exclusion applies to a particular item and is binding against all importers, even those not specifically named in the complaint. For example, the ITC has ordered the

10. The procedural rules for ITC investigations of unfair practices in import trade are set forth in 19 C.F.R. § 210 (1990). For a general discussion of ITC litigation procedures, see Newman & Lipman, *Representing Respondents in a Section 337 Investigation of the United States International Trade Commission*, 20 INT'L LAW 1187 (1986). *See also* Finlayson, *Rethinking the Overlapping Jurisdictions of Section 337 and the U.S. Courts*, 21 J. WORLD TRADE L. 41, 44 (1987).

11. Discovery is similar to that found under the Federal Rules of Civil Procedure, except that time limits are much tighter as the ITC must conclude its investigation within 12 months (18 months for more complicated cases). Krosin & Kozlowski, *Patent-based Suits at the International Trade Commission Following the 1988 Amendments to Section 337*, 17 AM. INTELL. PROP. L. A. Q. J. 47, 56-57 (1989).

12. *Id.* at 60.

13. Section 337 violations include unfair methods of competition, unfair acts in the importation of articles, and importation of articles into the United States which infringe a valid and enforceable patent. 19 U.S.C. § 1337(a) (Supp. 1989).

14. 19 C.F.R. § 210.53(h) (1990).

15. 19 C.F.R. § 210.55 (1990).

16. The ITC shall grant a review of an initial determination upon the petition of any party if at least one Commissioner votes for ordering a review. 19 C.F.R. § 210.54(b)(3) (1990).

17. 19 C.F.R. § 210.53(h) (1990).

18. 19 C.F.R. § 210.57(d) (1990).

19. *Id.*

20. 19 C.F.R. § 210.71 (1990).

21. 19 U.S.C. § 1337(d),(f) (1988). For a thorough discussion of ITC remedies and a comparison with remedies available from other forums, see Katz & Cohen, *Effective Remedies Against the Importation of Knock-offs: A Comparison of Remedies Available from the International Trade Commission, Customs and Federal Courts*, 66 J. PAT. OFF. SOC'Y 660 (1984). *See also* Krosin & Kozlowski, *supra* note 11, at 50-52.

22. 19 U.S.C. § 1337(d) (1988).

U.S. Customs Office to stop certain video games from being imported into the United States regardless of the importer.[23] A limited exclusion order is also an *in rem* remedy; however, it is limited in scope—usually applying only to the parties named in the complaint.[24] A cease and desist order, similar to an injunction, prohibits a party from committing specific unfair trade practices.[25] A party violating a cease and desist order can face substantial fines.[26] The remedies available to the ITC are consistent with Section 337's purpose of providing a quick, effective response to unfair import practices. The ITC, however, is not authorized to award monetary damages; thus, parties seeking this relief must resort to other forums.

3. Jurisdiction in Cases Involving Patent Issues

One of the unfair trade practices that the ITC is specifically empowered to investigate is the "importation into the United States . . . of articles that . . . infringe on a valid and enforceable United States patent . . ."[27] when an industry in the U.S. exists or is in the process of being established relating to that patent.[28] Prior to the Trade Act of 1974, case law held that the Tariff Commission was not allowed to consider a patent's validity in a Section 337 investigation.[29] Instead, the Tariff Commission presumed the patent to be valid and investigated other aspects of the allegation. The legislative history to the Trade Act of 1974, however, clearly indicates that the Act overrules this precedent and empowers the ITC to consider the validity of the patent when making an investigation.[30]

The Senate Report on the Trade Act of 1974 specifically addressed the scope of the ITC's consideration of patent issues:

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23. In re Certain Coin-Operated Audio-Visual Games, 214 U.S.P.Q. 217 (U.S.I.T.C. 1981). *See also* Katz & Cohen, *supra* note 21, at 668 (noting some of the enforceability problems associated with exclusion orders).

24. 19 U.S.C. § 1337(d) (1988). *See also* Katz & Cohen, *supra* note 21, at 673.

25. 19 U.S.C. § 1337(f) (1988). *See also* Katz & Cohen, *supra* note 21, at 674.

26. 19 U.S.C. § 1337(f)(2) (1988).

27. *Id.* at § 1337(a)(l)(B)(i).

28. *Id.* at § 1337(a)(2).

29. Frischer & Co., Inc. v. Bakelite Corp., 39 F.2d 247, 258 (1930), *cert. denied*, 282 U.S. 852 (1930) (holding that the Tariff Commission had no jurisdiction to hear this issue).

30. A statutory presumption of validity exists for both the ITC and the federal courts. "A patent shall be presumed valid . . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity." 35 U.S.C. § 282 (1982). *See also* Lannom Mfg. Co., Inc. v. United States Int'l Trade Comm'n, 799 F.2d. 1572, 1574 (Fed.Cir. 1986) (holding that if patent invalidity is not asserted as a defense to a Section 337 claim, the ITC must presume validity).

Because there is a statutory presumption of patent validity, the ITC usually confronts the issue of patent invalidity when it is asserted as a defense against Section 337 allegations. Section 337 states that "[a]ll legal and equitable defenses may be presented in all cases." 19 U.S.C. § 1337(c) (1988). Thus, when a party is accused of a Section 337 violation for patent infringement, he may defend himself by proving that the patent was invalid. To do so, the alleged infringer must introduce evidence to rebut the statutory presumption of the patent's validity.

> The Commission has also established the precedent of considering U.S. patents as being valid unless and until a court of competent jurisdiction has held otherwise. However, the public policy recently enunciated by the Supreme Court in the field of patent law . . . and the ultimate issue of the fairness of competition raised by section 337, necessitate that the Commission review the validity and enforceability of patents, for the purposes of section 337, in accordance with contemporary legal standards when such issues are raised and are adequately supported. The Committee believes the Commission may (and should when presented) under existing law review the validity and enforceability of patents, but Commission precedent and certain court decisions have led to the need for the language of amended section 337(c). The Commission is not, of course, empowered under existing law to set aside a patent as being invalid or to render it unenforceable, and the extent of the Commission's authority under this bill is to take into consideration such defenses and to make findings thereon for the purposes of determining whether section 337 is being violated.
>
> The relief provided for violations of section 337 is "in addition to" that granted in "any other provision of law." The criteria of section 337 differ in a number of respects from other statutory provisions for relief against unfair trade practices. For example, in patent-based cases, the Commission considers, for its own purposes under section 337, the status of imports with respect to the claims of U.S. patents. The Commission's findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have res judicata or collateral estoppel effect in cases before such courts.[31]

While the Senate Report clearly indicates that the Trade Act of 1974 reverses judicial precedent and allows the ITC to make a determination regarding a patent's validity, this determination is solely for the purposes of its Section 337 investigation and is not intended to be given preclusive effect. In other words, the Senate Report shows that Congress did not intend for an ITC determination of patent invalidity to be binding on the courts, preventing this issue from being relitigated. Furthermore, the Senate Report indicates that appellate treatment of an ITC patent finding should also be denied preclusive effect in other courts.[32]

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31. Senate Report, *supra* note 5, at 196. The Supreme Court case referred to by the Senate Report was Lear, Inc. v. Adkins, 395 U.S. 653 (1969). Presumably, the public policy which the Senate Report referred to as being articulated in this case was to promote free competition in ideas which do not merit patent protection. *Id.* at 656. Congress was concerned that by prohibiting the ITC from considering a patent's validity in its Section 337 investigations, the ITC might issue exclusion orders based on an invalid patent. This could have devastating consequences to an importer and provide an unwarranted windfall to a party holding an invalid patent. Thus, Congress concluded that in the interests of fairness and free competition, the ITC must be allowed to consider patent validity in its Section 337 investigations.

32. This point is made clear in another part of the Senate Report which states that "under the Committee bill, decisions by the U.S. Court of Customs and Patent Appeals reviewing Commission decisions under Section 337 should not serve as res judicata or collateral estoppel in matters where the U.S. District Courts have original

B. Prior Case Law

Several decisions prior to *Convertible* discuss the preclusive effect federal courts should grant to both ITC determinations of patent invalidity and appellate treatment of such determinations. While these cases can be distinguished from *Convertible* on their facts and the precise issue that the courts faced, they do indicate a judicial inclination towards denying preclusive effect to ITC determinations of patent invalidity.

In *Stevenson v. Grentec, Inc.*,[33] the plaintiff filed patent infringement complaints before both the District Court for the Central District of California and the ITC regarding a skateboard design. Before the district court reached a decision, the ITC affirmed the ALJ's determination that the patent was invalid for obviousness.[34] On appeal, the Court of Customs and Patent Appeals (CCPA)[35] reversed the ITC determination and held the patent valid. After the ITC determination but prior to the CCPA decision, the district court held that the patent was invalid for obviousness and granted summary judgment for the defendant. The plaintiff appealed the district court decision to the Court of Appeals for the Ninth Circuit which affirmed the district court decision and refuted the CCPA decision. The Ninth Circuit stated, "the decisions of the Court of Customs and Patent Appeals should be given great weight and treated with respect; they are not, however, binding on this Court."[36] The Ninth Circuit decision exemplified the effect federal courts granted ITC determinations and appellate review of ITC determinations prior to 1985; namely, they were not considered to be binding on the district courts.

In 1985, however, the Court of Appeals for the Second Circuit opened the door to granting preclusive effect to ITC determinations by

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jurisdiction." Senate Report, *supra* note 5, at 35 (the U.S. Court of Customs and Patent Appeals preceded the U.S. Court of Appeals for the Federal Circuit). The district courts have "original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks." 28 U.S.C. § 1338(a) (1982).

33. 652 F.2d 20 (9th Cir. 1981).

34. *Stevenson*, 652 F.2d at 21.

35. The Court of Customs and Patent Appeals was the predecessor to the U.S. Court of Appeals for the Federal Circuit. *See infra* notes 96-97 and accompanying text.

36. *Stevenson*, 652 F.2d at 22-23. This decision took place before enactment of the Federal Courts Improvement Act, which restructured the federal court system so that appeals of ITC determinations and district court patent decisions are now both taken to the Federal Circuit. *See infra* notes 96-97 and accompanying text. This decision is arguably not relevant given the present structure of the federal court system. *See* H. KAYE, P. PLAIA & M. HERTZBERG, *supra* note 6, at § 11.19. Additionally, the defendants in the actions before the CCPA and the district court were different; offensive use of issue preclusion is not appropriate against defendants who were not parties or in privity with parties to the first action. J. FRIEDENTHAL, M. KANE & A. MILLER, CIVIL PROCEDURE § 14.13 (1985). *See also* Stevenson v. Sears, Roebuck & Co., 713 F.2d 705, 710-11 (Fed. Cir. 1983) (inequitable to bind a party to a judgment of patent validity rendered in an action against another party).

holding in *Union Mfg. Co., Inc. v. Han Baek Trading Co., Ltd.*[37] that an ITC determination regarding trademark infringement should be given res judicata effect in a district court. Union filed a complaint with the ITC alleging Section 337 violations premised on trademark infringement and false designation of origin. After a comprehensive investigation, the ITC ruled in favor of the defendant, Han Baek.[38] Upon losing at the ITC, Union brought an action in the District Court for the Southern District of New York renewing the same claims brought before the ITC. The district court did not rule on the affirmative defense of res judicata and the case proceeded to trial, where the jury found in favor of Union.[39] Han Baek appealed the district court decision to the Court of Appeals for the Second Circuit, which applied the principles of administrative res judicata and held that the district court should grant preclusive effect to the ITC determination.[40]

The Court of Appeals in *Union* acknowledged the statements made in the Senate Report[41] regarding the effect to be given ITC determinations. However, the court limited the applicability of those statements to patent cases on the basis that Congress had granted exclusive jurisdiction over patent validity issues to the district courts.[42] The *Union* court concluded that the Senate Report did not prevent granting preclusive effect to ITC determinations relating to trademark issues. The Court of Appeals stated that "the jurisdictional bar to res judicata treatment of ITC patent validity determinations simply does not apply to other decisions by the ITC."[43] Hence, while the Second Circuit recog-

37. 763 F.2d 42 (2d Cir. 1985).

38. Specifically the ITC rejected the ALJ's initial determination of trademark infringement and ruled that "the design of [the complainant's product] had not acquired secondary meaning, that the design did not constitute a common law trademark, and the [defendant's] similar . . . design did not constitute a false designation of origin." *Id.* at 44.

39. *Id.*

40. *Id.* at 46. The Court of Appeals did allow Union the opportunity to appeal the ITC decision to the Federal Circuit. *Id.* at 49.

41. *See supra* note 32 and accompanying text.

42. Interestingly, while the court cited the Senate Report, it did not mention the Senate Report's statement that decisions by the CCPA reviewing ITC decisions should not serve as res judicata or collateral estoppel in matters over which the district court has original jurisdiction. *See supra* note 32 and accompanying text. Under Title 28 district courts have original jurisdiction over trademark matters. 28 U.S.C. § 1338(a) (1982). The court attempts to distinguish trademark and patent res judicata treatment on the ground that district courts have exclusive jurisdiction in patent but not trademark cases. However, there is no legislative history which supports different treatment based on this distinction. *See also* Certain Apparatus For Disintegration of Urinary Calculi, 337-TA-221, Order No. 3 (June 6, 1985) (noting this flaw in the Second Circuit's reasoning in *Union Mfg*).

43. *Union Mfg.*, 763 F.2d at 45. In Telectronics Propriety Ltd. v. Medtronic, Inc., 687 F. Supp. 832 (S.D.N.Y. 1988), a Second Circuit district court extended the *Union Mfg.* court's rationale to patent licenses, holding that an ITC determination that Telectronics had a valid license to use a patent barred Medtronic from relitigating this issue in the district court. The court stated, "Because the ITC decision was on a matter within its jurisdiction (the existence of a license is a defense to a claim of unfair competition), there is no jurisdiction-based reason why the ITC determination

nized that it would be appropriate for federal courts to grant preclusive effect to some ITC determinations, it stated that preclusive effect should not be granted to ITC patent determinations.

The U.S Court of Appeals for the Federal Circuit has also addressed this issue in a recent case. In *Tandon Corp. v. United States Int'l Trade Comm'n*,[44] the Federal Circuit affirmed an ITC determination that the complainant's patent was not infringed and that no Section 337 violation had occurred. Citing the Senate Report, the Federal Circuit stated in dicta that its "appellate treatment of decisions of the Commission does not estop fresh consideration by other tribunals."[45] While the Federal Circuit court was not explicitly addressing the preclusive effect to be given ITC patent determinations in *Tandon*, this statement indicates that the Federal Circuit believes district courts should not grant preclusive effect to ITC patent determinations.

II. *In Re Convertible Rowing Exerciser Patent Litigation*

A. Facts

In October 1984, Diversified Products Corporation ("Diversified") and Brown Fitzpatrick LLoyd, Ltd. (BFL) filed nine separate patent infringement actions against various defendants, including Weslo, Inc. ("Weslo"), in district courts throughout the country.[46] These actions, in addition to four actions filed later, were consolidated for pretrial proceedings in the United States District Court for Delaware.[47] In December 1984, Diversified filed a complaint against various parties, including Weslo, with the ITC alleging unfair trade practices under Section 337. Diversified's actions before the ITC and the district court centered on the importation of convertible rowing exercisers which allegedly infringed on Patent No. 4,477,071 (" '071 patent") for which Diversified was the exclusive licensee. Weslo, the only common defendant to both the district court and the ITC actions, responded to the ITC and district court actions by asserting that the '071 patent was invalid and not infringed.[48]

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should not be accorded issue-preclusive effect." *Id.* at 846. The court did note that ITC patent determinations were not to be given res judicata effect. *Id. See infra* note 81 for other contexts in which district courts have granted preclusive effect to ITC determinations.

44. 831 F.2d 1017 (Fed.Cir. 1987).

45. *Id.* at 1019. Presumably, the Federal Circuit was only referring to patent cases. Ironically, in a recent case before a district court the ITC filed an amicus brief urging a position that no ITC determination should be given preclusive effect in the district courts. Baltimore Luggage Co. v. Samsonite Corporation, 727 F. Supp. 202, 205 (D. Md. 1989). The Fourth Circuit district court rejected the arguments in the ITC's amicus brief and followed the rationale in *Union Mfg.*, holding that an ITC determination relating to trademark issues should be given preclusive effect in the federal courts. *Id. See supra* notes 41-43 and accompanying text.

46. *Convertible*, 721 F. Supp. at 597.

47. *Id.* The consolidation was in accordance with an order issued by the Judicial Panel for Multidistrict Litigation. *Id.*

48. *Id.* at 598.

The ITC performed a full investigation of the complaint and determined that Diversified's patent was invalid, stating that "while all other aspects of an unfair trade practice had been established, the invention of the '071 patent was obvious in view of the prior art Beacon 3002 rowing machine."[49] Diversified appealed the ITC determination that the '071 patent was invalid for obviousness to the Federal Circuit. The Federal Circuit, in an unpublished decision, affirmed the ITC determination.[50]

Based on the Federal Circuit decision, Weslo and another defendant moved for summary judgment in the Delaware district court on the issue of the validity of the '071 patent.[51] In particular, Weslo argued that the district court should grant preclusive effect to the ITC's determination and the Federal Circuit's affirmance that the '071 patent was invalid.[52] The Delaware district court in an opinion written by Chief Judge Longobardi denied Weslo's summary judgment motion, refusing to give preclusive effect to the ITC determination and Federal Circuit affirmance.[53]

B. Court's Rationale

The district court carefully considered the arguments for and against giving preclusive effect to the ITC determination and Federal Circuit affirmance. The court articulated two arguments for granting preclusive effect, the first based on the principle of administrative res judicata, and the second based on the Supreme Court's decision in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*.[54] Ultimately, the court rejected these arguments and denied preclusive effect, basing its decision on jurisdictional limitations placed on the ITC by Congress. Additionally, the court argued that differences in form and substance between questions presented by the ITC and the district court on review to the Federal Circuit demanded that the district court deny preclusive effect to a Federal Circuit affirmance of an ITC determination regarding patent validity. Thus, the court concluded that it could freshly consider the issue of patent validity.

1. Arguments for Preclusive Effect

a. Administrative Res Judicata

The court noted that the general policies underlying administrative res judicata[55] favor giving preclusive effect to the ITC and Federal Circuit

49. *Id.* Obviousness is a legal conclusion that the subject matter sought to be patented would have been obvious at the time of invention to a person of ordinary skill in the art and, therefore, is not patentable. 35 U.S.C. § 103 (1981).

50. *Diversified*, 824 F.2d at 980 (table; text in WESTLAW, Allfeds database).

51. *Convertible*, 721 F. Supp. at 597.

52. *Id.*

53. *Id.* at 603-04.

54. 402 U.S. 313 (1971).

55. Administrative res judicata bars the relitigation of causes of action between the same parties or their privies, if there is a final judgment on the merits. It is comparable to the judicial doctrine of res judicata, and precludes

decisions and that judicial precedent exists for such a conclusion. Judge Longobardi acknowledged the policies that are furthered by granting preclusive effect to agency findings: ensuring finality of litigation,[56] protecting those who have relied on agency decisions,[57] promoting judicial efficiency,[58] and relieving the parties of the "cost and vexation of multiple lawsuits."[59] Furthermore, the court noted that in *United States v. Utah Construction Co.*[60] the Supreme Court held that when a federal agency acts in a judicial capacity its findings should be given preclusive effect. Because the ITC was acting in a judicial capacity when it decided *Convertible*, this principle supports giving preclusive effect to the ITC decision.

b. Principles of *Blonder-Tongue*

The court noted that an additional argument for granting preclusive effect to the ITC and Federal Circuit decisions is the holding in *Blonder-Tongue*,[61] in which

> the Supreme Court held that once an issue has been finally adjudicated and a District Court has determined that a patent is invalid, unless the party against whom estoppel is sought can demonstrate that he did not previously have a full and fair opportunity to adjudicate the issue, the question of patent validity cannot be relitigated in any subsequent proceeding.[62]

Judge Longobardi conceded that Diversified had a full and fair opportunity to litigate the issue of patent validity before the ITC and that the ITC was fully capable and competent to hear this issue.[63] Therefore, *Blonder-Tongue* arguably supports the proposition that a district court should not relitigate the issue of patent validity after the ITC has determined the patent is invalid and the Federal Circuit has affirmed the ITC's determination.

The court recognized that the *Blonder-Tongue* holding was particu-

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> not only the relitigation of the same issues in an administrative hearing, but also in a judicial proceeding . . . . Administrative collateral estoppel . . . acts as a bar to the relitigation of issues between the same parties or their privies if a judgment on the merits has been rendered in the prior proceeding. Administrative collateral estoppel applies in an ensuing court proceeding if the administrative record substantiates the findings on material issues.

4 J. STEIN, G. MITCHELL & B. MEZINES, ADMINISTRATIVE LAW § 40.01 (1989).

56. *Convertible*, 721 F. Supp. at 599.

57. *Id.* The court acknowledged the reliance problem that can occur when a party relies on an agency decision and invests capital to develop a product only to have that investment undermined when the agency decision is overturned by a district court. *Id.*

58. Judge Longobardi noted that "if the Court hears this dispute on the merits, valuable Court and litigant resources could be wasted." *Id.* at 599 n.10.

59. *Id.* at 600 (quoting Allen v. McCurry, 449 U.S. 90, 94 (1980)).

60. 384 U.S. 394, 422 (1966).

61. *Blonder-Tongue*, 402 U.S. 313 (1971).

62. *Convertible*, 721 F. Supp. at 600 (citing *Blonder-Tongue*, 402 U.S. at 350).

63. *Id.*

larly relevant in light of the Federal Courts Improvement Act (FCIA).[64] Prior to FCIA, ITC decisions were appealed to the Court of Customs and Patent Appeals while district court patent decisions were appealed to the Court of Appeals for the Circuit in which the district court was located. As a result of FCIA, both ITC determinations and district court patent decisions are appealed to the same court, the U.S. Court of Appeals for the Federal Circuit. Allowing the Delaware district court to relitigate the validity of the '071 patent places the district court in the awkward position of possibly reaching a result different from the one already reached by its appellate court on appeal from the ITC.[65]

2. Arguments Against Granting Preclusive Effect

a. Jurisdictional Limitations to ITC

The court concluded that the ITC has jurisdiction to determine patent validity only for the limited purpose of determining unfair trade practices and that its determinations regarding patent validity are not binding on the district court. The court based this conclusion on jurisdictional parameters set for the ITC in the legislative history of the Trade Act of 1974[66] and on decisions made by other courts.[67] Judge Longobardi expressly distinguished the jurisdiction of the ITC[68] from the jurisdiction of the district courts:[69]

> Congress, in promulgating the jurisdictional parameters for the ITC and the federal District Courts, created two separate jurisdictions to consider two distinct questions: jurisdiction over unfair trade acts lies with the ITC while jurisdiction over the validity, enforceability and infringement

64. Federal Courts Improvement Act of 1982, Pub. L. 97-164, 96 Stat. 25 (1982).

65. *Convertible*, 721 F. Supp. at 599. *See also id.* at 599 n.9 (citing United States v. Mitlo, 714 F.2d 294, 298 (3d Cir. 1983) (judgment of higher court must be followed by lower courts in that jurisdiction)).

66. *See supra* note 31 and accompanying text.

67. Judge Longobardi cites three cases in which other courts have recognized that a district court may adjudicate a patent's validity even though the ITC had previously made a determination as to its validity. *Convertible*, 721 F. Supp. at 601-602. The cases cited are: Union Mfg. Co., Inc. v. Han Baek Trading Co., Ltd., 763 F.2d 42, 45 (2d Cir. 1985) (the ITC has no jurisdiction to determine patent invalidity except for the limited purpose of deciding a case otherwise properly before it); Telectronics Proprietary, Ltd. v. Medtronics, 687 F. Supp. 832, 846 n.42 (S.D.N.Y. 1988) ("ITC may consider issues of patent validity only to extent such issues impact upon unfair competition claims"); and Glasstech, Inc. v. AB Kyro Oy, 635 F. Supp. 465, 468 (N.D. Ohio 1986) (although an ITC finding that a patent is valid under section 337 is not res judicata on district court, it is proper to draw inference based on the ITC decision as to probability of party's success on merits).

68. The jurisdictional basis for the ITC can be found in 19 U.S.C. §§ 1332(b), 1337 (1988). The ITC hears the issue of patent validity when patent invalidity is asserted as a defense to claims of unfair trade practice. Corning Glass Works v. United States Int'l Trade Comm'n, 799 F.2d 1559, 1566-67 (Fed. Cir. 1986). *See supra* note 30.

69. The district court has original jurisdiction over civil actions arising under any Act of Congress relating to patents. Such jurisdiction is exclusive of state courts in patent cases. 28 U.S.C. § 1338(a) (1982).

> of patents lies with the federal District Courts.[70]

Thus, the court concluded that the issues addressed by the ITC are different in both form and substance from those addressed by the district court and that the district court is free to relitigate the validity of the '071 patent.

While the Trade Act of 1974 does not indicate the preclusive effect of ITC findings, the legislative history does explicitly address this issue. The court relied on the Senate Report and quoted it: "The Commission's findings neither purport to be, nor can they be, [regarded] as binding interpretations of the U.S. patent laws in particular factual contexts."[71] Based on this legislative history, the court concluded that granting preclusive effect to the ITC determination would undermine the jurisdictional parameters established by Congress.[72]

b. Federal Circuit's Affirmance

In general, the Delaware District Court is bound by Federal Circuit patent decisions because appeals from district court patent cases are taken to the Federal Circuit. Judge Longobardi noted, however, that the district court is not bound by Federal Circuit decisions reviewing ITC determinations because (1) the Federal Circuit has specifically stated that its appellate treatment of ITC patent determinations should not prevent district courts from rehearing these issues,[73] and (2) the questions presented on appeal from the ITC differ in form and substance from the questions presented on appeal from the district courts.[74] The court distinguished the questions that the Federal Circuit hears on review from the ITC from those it hears from the district courts:

> The Federal Circuit reviews District Court decisions under section 1338 with regard to patent validity, enforceability and infringement; whereas, the Federal Circuit reviews whether the ITC made the correct determination under section 337 as to unfair trade practices . . . .[75]

In other words, Judge Longobardi argued that while the Federal Circuit will address the issue of patent validity on appeal from a district court, the Federal Circuit's appellate review of ITC determinations is limited to whether the ITC made a correct Section 337 determination. The court concluded that because issues raised by the ITC differ in both form and substance from those raised by the district court, a Federal

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70. *Convertible*, 721 F. Supp. at 601.

71. *Id.* at 602 (citing Senate Report, *supra* note 5, at 196). *See supra* note 31 and accompanying text.

72. *Convertible*, 721 F. Supp. at 602.

73. *Id.* (citing Tandon Corp. v. United States Int'l Trade Comm'n, 831 F.2d 1017, 1019 (Fed.Cir. 1987) and Lannom Mfg. Co., Inc. v. United States Int'l Trade Comm'n, 799 F.2d 1572, 1577-78 n.12 (Fed.Cir. 1986)). *See supra* notes 44-45 and accompanying text.

74. *Convertible*, 721 F. Supp. at 602.

75. *Id.*

Circuit affirmance of an ITC determination of patent invalidity should not be binding on a district court.

C. Outcome

The court ultimately rejected the arguments for granting preclusive effect to the ITC determination and its Federal Circuit affirmance and held that the district court could rehear the issue of patent validity. Judge Longobardi concluded that administrative res judicata is inapplicable because the questions presented in an ITC hearing are different in form and substance from those presented before the district court.[76] Furthermore, the court refused to extend *Blonder-Tongue* to the context of an administrative agency and held that its principles are not applicable because "[t]he issues the ITC considered and . . . [those the district court] will consider are different in both form and substance."[77] The court concluded that the ITC's jurisdiction to determine patent validity is limited solely to its determination of unfair trade practices; therefore, ITC determinations of patent invalidity and appellate treatment of such determinations are not binding on district courts.[78]

III. Analysis

Judge Longobardi's arguments against giving preclusive effect to ITC determinations of patent invalidity can be distilled into two lines of reasoning: (1) the issues addressed by the ITC and on appeal to the Federal Circuit are different in form and substance from the issues addressed by the district court, and, therefore, issue or claim preclusion is not appropriate;[79] and (2) Congress has placed specific jurisdictional limitations on the ITC which bar district courts from giving preclusive effect to ITC patent validity determinations.[80] Careful analysis of the court's form and substance argument reveals that it is flawed, leaving only the jurisdictional argument as a basis for denying preclusive effect to ITC patent determinations.

A. Form and Substance Argument

In numerous nonpatent cases, district courts have recognized the validity of ITC determinations and have granted preclusive effect to them.[81] In fact, the Federal Circuit has been very deferential to ITC determina-

76. *Id.* at 603.
77. *Id.*
78. *Id.* at 604.
79. *See supra* notes 73-75 and accompanying text.
80. *See supra* notes 67-72 and accompanying text.
81. Union Mfg. Co., Inc. v. Han Baek Trading Co., Ltd., 763 F.2d 42 (2d Cir. 1985) (preclusive effect granted to ITC determination regarding trademark infringement); Telectronics Proprietary, Ltd. v. Medtronic, Inc., 687 F. Supp. 832 (S.D.N.Y. 1988) (ITC decision regarding existence of license to use patent is binding on district court); Aunyx Corp. v. Canon, U.S.A., Inc., 1989 WL 73296 (D.Mass. 1989) (WESTLAW, Allfeds database) (certain unfair competition claims litigated before ITC are given preclusive effect in district court); Baltimore Luggage Co. v. Samsonite

tions and has stated that "it was the intent of Congress that greater weight and finality be accorded to the Commission's findings as compared with those of a trial court."[82] Furthermore, commentators have acknowledged that the ITC has special proficiency in intellectual property matters.[83] Because the ITC follows the same procedures in patent cases as it does in other investigations, it seems that if preclusive effect is warranted for nonpatent determinations, it is also warranted for patent determinations.[84]

Judge Longobardi tried to distinguish the questions that the Federal Circuit hears on appeal from the ITC from those heard on appeal from the district court: "The Federal Circuit reviews District Court decisions under section 1338 with regard to patent validity, enforceability and infringement; whereas the Federal Circuit reviews whether the ITC made the correct determination under section 337 as to unfair trade practices in import trade."[85] The Judge's analysis is misleading. Congress has granted the ITC jurisdiction to investigate alleged section 337 violations and to consider all legal and equitable defenses to such allegations.[86] Patent invalidity is a defense to section 337 violations and is often determinative to an ITC ruling. Therefore, the ITC fully explores any allegation of invalidity, and the patent's validity is often explicitly addressed by the Federal Circuit on appeal. In fact, when Diversified Products appealed the ITC determination, the primary issue the Federal Circuit addressed was the ITC's conclusion that the '071 patent was invalid for obviousness.[87] Patent validity was the main issue on appeal because the ITC determined that all other aspects of unfair trade practice had been established.[88] After carefully considering the record, the Federal Circuit concluded that the ITC "reached a result which was not inherently improbable or discredited."[89] Because the Federal Circuit will fully address patent validity when presented on appeal from the ITC, Judge Longobardi's assertion that the issues presented to the Federal Circuit on review from the ITC and the district court differ in form and substance is not entirely accurate.

In summary, the form and substance argument articulated by Judge Longobardi does not justify denying preclusive effect to an ITC determi-

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Corp., 727 F. Supp. 202 (D. Md. 1989) (antitrust and unfair competition claims litigated before the ITC should be given preclusive effect in district court).

82. Tandon Corp. v. United States Int'l Trade Comm'n, 831 F.2d 1017, 1019 (Fed. Cir. 1987).

83. Finlayson, *supra* note 10, at 45.

84. This assumes that no special jurisdictional bar exists and that there is nothing inherently unique about patent issues versus other issues addressed by the ITC. Unique characteristics of patent issues and their relevance to granting preclusive effect to ITC patent determinations are discussed at III.C.3 of this Note. *See infra* notes 112-20 and accompanying text.

85. *Convertible*, 721 F. Supp. at 602.

86. *See supra* note 30.

87. *Diversified*, 824 F.2d at 980 (table; text in WESTLAW, Allfeds database).

88. *Convertible*, 721 F. Supp. at 598.

89. *Diversified*, 824 F.2d at 980 (table; text in WESTLAW, Allfeds database).

nation and Federal Circuit affirmance of patent invalidity. This argument underestimates the full consideration that the ITC and Federal Circuit give to patent issues. Additionally, if this argument is valid, its reasoning should apply to all issues considered by the ITC in its determinations—not just patent issues—because every issue addressed by the ITC is considered within the context of Section 337.[90] Therefore, if there is validity to the form and substance argument, it would support denying preclusive effect to every ITC determination and Federal Circuit affirmance. The federal courts clearly are not prepared for this result.[91]

B. Jurisdictional Argument

The jurisdictional argument presented by the court does provide a plausible basis for denying preclusive effect to ITC patent determinations. The Constitution authorizes Congress to set jurisdictional parameters for the federal courts[92] and agencies it has established.[93] The Senate Report also provides a clear indication of Congressional intent as to the jurisdictional boundaries of the ITC. The statements made in the Senate Report unequivocally indicate that federal courts are not to grant preclusive effect to ITC patent determinations.[94] Some authorities,[95] however, have questioned whether much weight should be placed on the

90. District courts have given preclusive effect to various ITC determinations, including trademark infringement and the existence of a valid license. *See supra* note 81 and accompanying text.

91. District courts have granted preclusive effect to various ITC determinations and Federal Circuit affirmances in various nonpatent contexts. *See supra* note 81 and accompanying text.

92. U.S. CONST. art. I, § 8, art. III, §§ 1, 2. *See also* J. FRIEDANTHAL, M. KANE & A. MILLER, *supra* note 36, at § 2.2 (Congress constitutionally free to grant or withhold subject matter jurisdiction of federal courts within ultimate boundaries demarked by Article III).

93. Presumably, Congress's power to establish the ITC is derived from article 1, section 8 of the Constitution, which authorizes Congress to regulate commerce with foreign nations and to promote science by allowing inventors the exclusive right to use their inventions for a limited time. U.S. CONST. art. 1, § 8.

94. *See supra* notes 31-32 and accompanying text. In fact, a careful reading of the Senate Report leads to the conclusion that Congress probably intended to deny preclusive effect to both patent and nonpatent ITC determinations. Arguably, the legislative history, referred to in section I.A.3. of this Note, reveals two purposes. *See supra* note 31 and accompanying text. The first purpose was to overturn precedent that prevented the Commission from even considering the issue of patent validity. *See supra* notes 29-30 and accompanying text. The second purpose was to ensure that neither patent nor nonpatent issues determined by the ITC were to have preclusive effect. This second purpose is revealed in the "Principle Features of the Bill" section of the Senate Report, which states, "Under the Committee bill, decisions by the U.S. Customs and Patent Appeals [the predecessor to the Federal Circuit] reviewing Commission decisions under Section 337 should not serve as res judicata or collateral estoppel in matters where U.S. District Courts have original jurisdiction." Senate Report, *supra* note 5, at 35. District courts have original jurisdiction over many issues other than patent issues, such as trademark and unfair competition issues. Thus, the current trend to give preclusive effect to all nonpatent ITC determinations appears to be erroneous and inconsistent with the Senate Report. *See supra* note 81 and accompanying text.

Senate Report in light of the subsequent passage of the Federal Courts Improvement Act (FCIA)[96] in 1982.

At the time the Senate Report was drafted, prior to the FCIA, ITC determinations were reviewed by the CCPA, and district court patent decisions were reviewed by the United States Court of Appeals.[97] Thus, appellate review for ITC decisions was completely separate from appellate review of district court decisions. As a result of the FCIA, both ITC determinations and district court patent decisions are reviewed by the same court, the Federal Circuit. Hence, it has been suggested that this change in the court structure should limit the weight given to the Senate Report.

As an ALJ noted in an initial determination:

> This major development makes reliance on the [Senate Report] inappropriate to the extent that it would limit the res judicata effect [given to the Federal Circuit's decisions] .... The [Federal Circuit] has jurisdiction to review [ITC] cases as well as those in district court, and presumably would not want to have a district court relitigate the issue of patent validity after the [Federal Circuit] had decided that issue.[98]

Underlying this argument is the premise that preclusive effect was denied to appellate treatment of ITC patent determinations because CCPA decisions were not binding on district courts.

The argument that the Senate Report should not be given weight is flawed. The Senate Report indicates that the fact that CCPA decisions were not binding on district courts was not the underlying rationale for denying preclusive effect to ITC patent determinations. The Senate report states, "The [ITC's] findings neither purport to be, nor can they be regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of [an ITC] action by a Federal Court should not have res judicata or collateral estoppel effect before such courts."[99] This quote indicates that Congress believed that denying preclusive effect to appellate treatment of ITC patent determinations was a natural corollary to the fact that the ITC has no jurisdiction to determine patent validity. In other words, if the ITC has no jurisdiction to make binding patent decisions in the first

95. Finlayson, *supra* note 10, at 53; Certain Apparatus for Disintegration of Urinary Calculi, 337-TA-221, Order No. 3 (June 6, 1985).

96. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982). A main objective of the FCIA was to promote uniformity in substantive patent law. *See* Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 6-8 (1989); Comment, *Patent Law Reform Via the Federal Courts Improvement Act of 1982: The Transformation of Patentability Jurisprudence*, 17 AKRON L. REV. 453, 455 (1984).

97. Note, *An Appraisal of the Court of Appeals for the Federal Circuit*, 57 S. CAL. L. REV. 301, 303-4 (1984).

98. Certain Apparatus for Disintegration of Urinary Calculi, 337-TA-221, Order No. 3 (June 6, 1985). *See also* Finlayson, *supra* note 10, at 53. ("Arguably, the ITC decisions were not granted res judicata effect because they were reviewed by an appellate body whose decisions were not binding on the district courts.").

99. Senate Report, *supra* note 5, at 196.

place, its patent decisions should not be made binding just because they are affirmed on appeal. This underlying premise is still valid in light of the change in the federal court structure occurring as a result of the FCIA.[100] Thus, a Federal Circuit affirmance of an ITC determination that a patent is invalid should not be binding on a district court even though the Federal Circuit has appellate review over district court patent decisions.

In dicta, the Federal Circuit has agreed that its appellate treatment of ITC patent decisions should not be given preclusive effect in the district courts. In *Tandon Corp. v. United States Int'l Trade Comm'n*,[101] the Federal Circuit, without any real need to do so, specifically stated, "our appellate treatment of decisions of the [ITC] does not estop fresh consideration by other tribunals."[102] Thus, the jurisdictional limitations set by Congress on ITC patent determinations and Federal Circuit treatment of ITC determinations provide valid support for Judge Longobardi's decision in *Convertible* that district courts should be free to relitigate a patent's validity despite an ITC determination and Federal Circuit affirmance that the patent is invalid.

C. Effect of Decision

While the legislative history supports the decision in *Convertible*, an important question still remains: Does this decision make good policy? There are various practical and equitable considerations that suggest that it is more sensible to make ITC determinations of patent invalidity binding on district courts. This section of the Note explores some of these considerations and concludes that there is no substantial policy reason for granting preclusive effect to ITC determinations in various nonpatent contexts while denying preclusive effect to ITC patent determinations.

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100. This is more than just a semantic argument and is likely to have important consequences. The evidentiary records for the same case that come before the Federal Circuit on appeal from the ITC and the district courts may be very different. The different records are a result of the different evidentiary and procedural rules that exist for the ITC and district courts. Hence, it is not implausible that the Federal Circuit will make different determinations for the same case when hearing appeals from these two different forums. Kaye, Lupo & Lipman, *The Jurisdictional Paradigm Between the United States International Trade Commission and the Federal District Courts*, 64 J. PAT. OFF. SOC'Y 118, 134 (March, 1982). *See also* Newman & Lipman, *supra* note 10, at 1190 (in practice the scope of discovery is broader in Section 337 investigations than in the district court). In fact, the ITC and district courts have reached very different results in actions involving essentially the same facts. *See* Certain Steel Rod Treating Apparatus & Components Thereof, Inv. No. 337-TA-97, 213 U.S.P.Q. 237 (1981) (ITC holds patent to be valid) and Ashlow Ltd. v. Morgan Constr. Co., 213 U.S.P.Q. 237 (D.S.C. 1982) (Court holds same patent invalid). *See also* Lupo, *Dual-Path Litigation Before the International Trade Commission and the Federal Courts in Import Cases Involving U.S. Patents*, 22 PAT. L. ANN. 411 (1984) (discussing litigation strategy as a result of these two cases).

101. 831 F.2d at 1019. *See supra* notes 44-45 and accompanying text.

102. *Tandon*, 831 F.2d at 1019.

1. Equitable Considerations in Convertible

Diversified's arguments for its right to relitigate the validity of the '071 patent are particularly unsympathetic for several reasons. First, Diversified picked the ITC as the forum to hear its claims. In fact, Weslo unsuccessfully attempted to get a court order to stay the ITC investigation until Diversified's parallel action in the district court was complete.[103] Thus, Diversified is protesting the decision of a forum upon which it had insisted. Second, the ITC is generally regarded as an advantageous forum for the claimant—in this case Diversified—because of procedural rules and the tight time constraints of the investigation.[104] Therefore, if any party has an argument that the ITC is an unfair, inappropriate forum to hear this dispute, it would be Weslo, not Diversified. Third, Diversified had a full and fair opportunity to litigate the issue of patent validity before the ITC,[105] and the Federal Circuit specifically affirmed the ITC's conclusion that the '071 patent was invalid.[106] In effect, Diversified is given two opportunities to succeed on its claims—once before the ITC and a second time in the district court.[107] These equitable considerations support Weslo's argument that the ITC's determination should be binding on the district court.

2. Practical Considerations in Convertible

The jurisdictional limitations of ITC patent determinations has a significant impact on litigation strategies.[108] The jurisdictional overlap between the ITC and district courts encourages parties to bring concurrent actions before a district court and the ITC involving substantially the same issue—patent validity.[109] The result is to promote duplicative, costly lawsuits.[110] Successful outcomes may be determined not on the

103. In re Convertible Rowing Exerciser Patent Litig., 616 F. Supp. 1134 (D.C. Del. 1985) (district court ruled that it was not empowered to stay ITC investigation).

104. Lupo, *supra* note 100, at 414; Kaye, Lupo & Lipman, *supra* note 100, at 125.

105. *Convertible*, 721 F. Supp. at 600 (the court admitted that Diversified had a full and fair opportunity to litigate before the ITC and that the ITC grasped the technical issues in the suit).

106. *Diversified*, 824 F.2d at 980 (table; text in WESTLAW, Allfeds database).

107. The policies underlying res judicata and collateral estoppel support making the ITC determination binding on the district court. *See supra* notes 55-60 and accompanying text.

108. It is generally thought that an ITC proceeding favors the patent holder, while district court litigation favors the alleged infringer. Lupo, *supra* note 100, at 414-422.

109. This practice has been referred to as "Dual-Path Litigation." Lupo, *supra* note 100, at 411.

110. In fact, the European Community filed a complaint alleging that Section 337 constituted a violation of the General Agreement on Tariffs and Trade (GATT) because it "accorded imported products less favorable treatment than that accorded domestic products." *USTR's Proposed Patent Law Reforms Concerning Infringing Imports*, 39 PAT. TRADEMARK & COPYRIGHT J. (BNA) 271, 273 (Feb. 8, 1990). The GATT Council adopted the report of a panel appointed to investigate this complaint. *Id.* at 274. The report concluded, in part, that Section 337 violated GATT because it forced importers to defend their products in two forums, the ITC and district courts. *Id.* at 273. The GATT Council has recommended that the U.S. "bring its procedures

merits of the case but rather on the extent of the respective parties' financial resources. Furthermore, duplicative lawsuits waste valuable agency and judicial resources. If a party is given a full and fair opportunity to present his case before the ITC, judicial economy considerations call for that decision to be binding in subsequent proceedings involving the same issues. Otherwise, judicial resources are wasted in repetitive litigation.

The practical implications associated with denying preclusive effect to ITC patent decisions merit a re-thinking of jurisdictional boundaries between the ITC and the district courts. The *Convertible* decision renders meaningless those ITC determinations in which the critical issue at stake is patent validity. If district courts reconsider patent issues de novo after the ITC has made a determination, the ITC decision becomes illusory since it is open to subsequent attack. Thus, practical considerations indicate that if the ITC is to consider patent validity in adjudicating section 337 violations, its decisions should be binding on district courts in contexts consistent with the principles of administrative res judicata.[111]

3. *Conflicting Res Judicata Treatment in Patent and Nonpatent ITC Determinations*

The preclusive effect district courts are willing to give ITC determinations is becoming apparent: district courts will grant preclusive effect to a broad range of ITC determinations but will deny preclusive effect to those determinations involving patent issues.[112] From a policy perspective, this begs an important question: What is the justification for treating ITC patent determinations so differently from nonpatent determinations? In other words, is patent adjudication so unique that it justifies different treatment?

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applied in patent infringement cases bearing on imported products into conformity with its obligations under [GATT]." *Id.* at 274.

The Office of the United States Trade Representative has proposed suggestions for amending Section 337 to respond to GATT concerns. One of the proposed suggestions would give respondents to Section 337 allegations the right to transfer the litigation from the ITC to another court. If the respondents failed to exercise this right, the ITC's decision as to patent validity and infringement would be binding on the parties subject to a right of appeal to the Federal Circuit. *Id.* at 277-78. If this suggestion was adopted, dual-path litigation before the ITC and district courts would come to an end and parties such as Weslo would not be subject to repetitive and duplicative litigation.

111. Arguably, the practice prior to the Trade Act of 1974, where the Tariff Commission was not allowed even to consider the issue of patent validity, is more sensible than the current system because the parties would not litigate the issue of patent validity twice. *See supra* notes 29-30 and accompanying text. Instead, validity was presumed by the Tariff Commission and an alleged infringer could attack a patent's validity by bringing an action in the district court. The problem with this system is that the district court proceeding usually took longer than the Tariff Commission investigation, and an alleged infringer could suffer substantial harm from a Tariff Commission exclusion order based on an invalid patent.

112. *See supra* note 81 and accompanying text.

There are two interests at stake in the question as to whether district courts should grant preclusive effect to ITC patent determinations. The first interest is the protection of American industry from unfair import trade practices by providing quick, effective relief when such practices are uncovered. Congress established the ITC to address this interest, giving it powerful remedies[113] and strictly limiting the length of its investigations.[114] The second interest is the assurance that all parties to an unfair import action have a full and fair opportunity to present their case before a competent, adjudicatory body. Presumably, in ITC patent determinations—but not in other ITC determinations—these interests compete and the second interest prevails, providing the underlying rationale for denying preclusive effect to ITC patent determinations.

The *Convertible* court emphasized the district court's exclusive jurisdiction over patent issues as a justification for denying preclusive effect to ITC patent determinations, insinuating that the ITC is simply not competent to make binding patent decisions.[115] A careful analysis of the underlying policies for the district court's exclusive jurisdiction suggests, however, that these policies would not be undermined by granting preclusive effect to ITC patent determinations. Two frequently articulated policies for the district court's exclusive jurisdiction over patent issues are (1) to promote uniformity of decisions, and (2) to develop the expertise necessary to decide the complicated technical issues that are frequently raised in patent cases.[116] Because all final ITC determinations can be appealed to the Federal Circuit, a court with patent law expertise,[117] there is a systemic protection ensuring that the ITC uniformly and correctly applies patent laws. Also, because ITC investigations frequently involve patent issues, the ITC is experienced in intellectual property matters[118]—probably more so than district courts, which less frequently adjudicate patent cases. Therefore, granting preclusive effect to ITC patent determinations will not necessarily undermine the policies underlying Congress' grant of exclusive jurisdiction over patent issues to the district courts.

If ITC patent determinations are made binding on district courts, an additional safeguard exists for ITC litigants. Under the principle of administrative res judicata, an agency decision will not be given preclu-

113. *See supra* notes 21-26 and accompanying text.

114. *See supra* note 9 and accompanying text.

115. *Convertible*, 721 F. Supp. at 601. *See also Union Mfg.*, 763 F.2d at 45.

The statutory basis for the district court's exclusive jurisdiction over patent issues is as follows: "[J]urisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases." 28 U.S.C.S. § 1338 (1983). It is interesting to note that the statute specifically states that a district court's jurisdiction is exclusive as to the states; arguably, this statute is not applicable to the ITC, a federal administrative agency.

116. Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 636 (1971).

117. *See supra* note 83 and accompanying text.

118. Finlayson, *supra* note 10, at 45.

sive effect if a party can show that he was denied a full and fair opportunity to present his case.[119] Therefore, if a party is denied a fair hearing before the ITC because of some procedural limitation—such as time limits for discovery—he may be able to argue successfully against giving preclusive effect to the ITC decision.

In summary, the district court's exclusive jurisdiction over patent issues does not justify the different res judicata treatment afforded ITC patent determinations versus other ITC determinations. The same practical and equitable considerations that support granting preclusive effect to nonpatent determinations apply equally to patent determinations. The Senate Report, however, clearly indicates that Congress intended that courts not give preclusive effect to ITC patent decisions. Thus, for district courts to give preclusive effect to ITC patent decisions,[120] legislative action is necessary.

Conclusion

In *Convertible Exerciser Patent Litigation*, the Delaware District Court has held that an ITC determination that a patent is invalid—a determination subsequently affirmed by the Federal Circuit—is not binding on the district court, thus allowing the district court to freshly consider the patent's validity. The *Convertible* court's decision is supported by legislative history which expressly limits the ITC's jurisdiction to hear patent issues. Because Congress is empowered to set jurisdictional boundaries on district courts and agencies, the *Convertible* court was correct in relying on this legislative history and deferring to Congressional intent. The *Convertible* decision, however, calls attention to an inconsistency in the preclusive effect that district courts grant ITC determinations: while district courts deny preclusive effect to ITC patent determinations, they have granted preclusive effect to ITC determinations in numerous nonpatent contexts. There is no strong rationale supporting this different treatment; and, from a policy perspective, district courts should grant

119. United States v. Utah Constr. Co., 384 U.S. at 422. *See also* J. FRIEDENTHAL, M. KANE & A. MILLER, *supra* note 36, at § 14.7 (three requirements must be met before res judicata (claim preclusion) effect is given: the decision must be valid, final, and on the merits).

Additionally, collateral estoppel (issue preclusion) is only appropriate if:

(1) the issue is identical to one decided in the first action;
(2) the issue was actually litigated in the first action;
(3) resolution of the issue was essential to a final judgment in the first action; and
4) plaintiff had a full and fair opportunity to litigate the issue in the first action.

A. B. Dick Co. v. Burroughs Corp., 713 F.2d 700, 702 (Fed. Cir. 1983) (footnote omitted), *cert. denied*, 464 U.S. 1042 (1983). *See also* J. FRIEDENTHAL, M. KANE & A. MILLER, *supra* note 36, at §§ 14.9, 14.14 (discussing principle of collateral estoppel).

120. *See also* Finlayson, *supra* note 10, at 58-62 (suggesting that a mechanism should be developed to allocate intellectual property disputes between the ITC and the district courts based on the individual characteristics of the dispute and the competence of the forum to address those characteristics).

preclusive effect to ITC patent determinations when doing so is consistent with the principles of administrative res judicata.

J. Brian Kopp